FORD'S EMERGING JAGUAR STRATEGY

GEORGE GILDER: AMERICAN TECHNOLOGY AT FIRE-SALE PRIC

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EUROPE 1992: WHERE DO U.S. INTERESTS LIE?

"We have not rolled back the frontiers of the state only to see them reimposed . . . with a European superstate."

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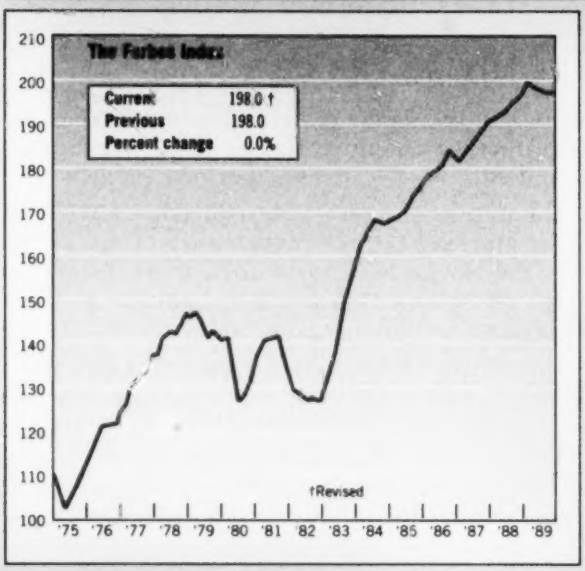
The Forbes Index



Vindicating those who predicted that inflation is not the threat it was, the cost of living rose a little less than 5% in 1989. The Consumer Price Index crept up only 0.2% in November, but could show a larger increase in December, because of the cold spell's upward push on energy and food prices. The Forbes Index is unchanged from two weeks ago, with its components continuing to emit mixed signals. For November, manufacturers' new orders rose more than 5%, to a record $131 billion. New housing starts, however, fell almost 25% from October to November, and are 13% lower than they were during the same period in 1988.

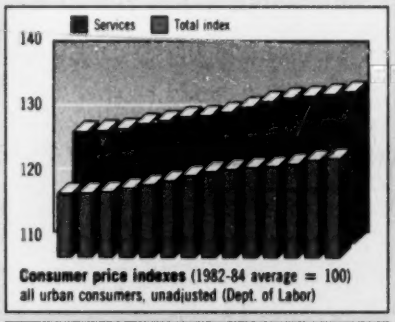
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.5%
Auto sales[1] year to date vs. 1988	Ward's Automotive	-3.1%
Index of leading indicators November vs. October	Dept. of Commerce	0.1%
Trade balance last 12 months	Dept. of Commerce	-$118 bil
Producer price index[2] November vs. 1988	Dept. of Labor	4.6%
GNP 3rd quarter vs. 2nd—annualized growth	Dept. of Commerce	3.0%

[1]U.S. based manufacturers only as of 12/10/89. [2]Finished goods.

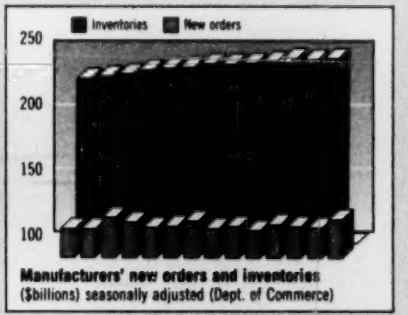
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

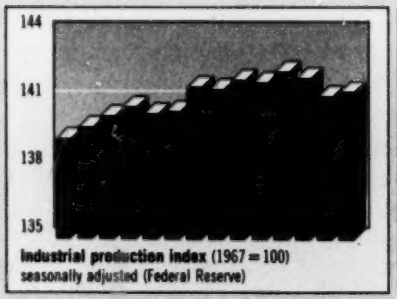
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



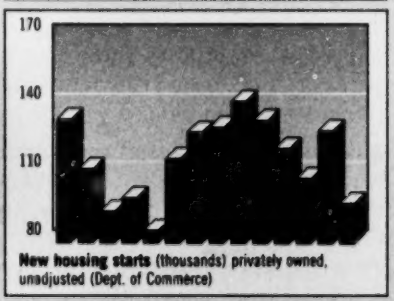
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



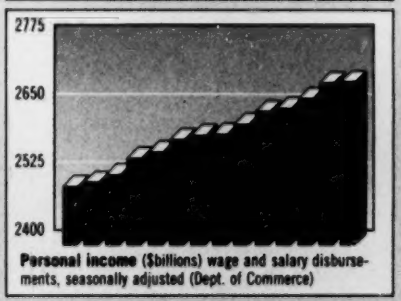
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

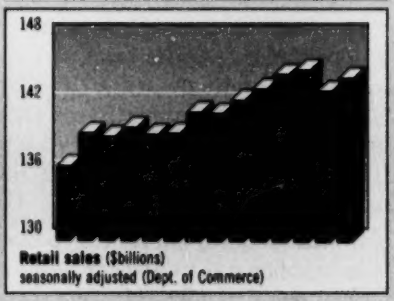


New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



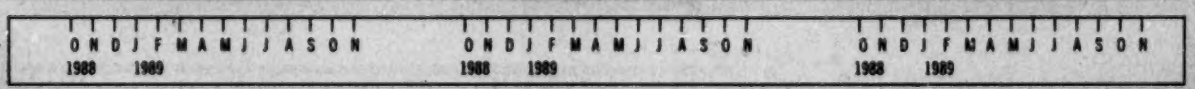
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)

New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)



Japanese companies have targeted another U.S. industry—pharmaceuticals—and have already made unsettling inroads.

A different kind of drug problem

By Gale Eisenstodt

THE PHARMACEUTICAL industry is yet another reminder that in Japan imitation is more than a form of flattery. A decade ago Japan paid out for foreign drug technology more than three times what it earned in royalties. But in a dramatic reversal Japan has since 1986 become a net exporter of pharmaceutical technology. Observes Robert Neimeth, executive vice president of Pfizer International: "Japanese drug companies are becoming world-class players in terms of innovative capabilities." Tops on Neimeth's list of innovative Japanese drugmakers are $1.3 billion (revenues) Eisai, $1.6 billion Fujisawa Pharmaceutical and $5 billion Takeda Chemical *(see table)*.

After gaining proficiency in making antibiotics, Japanese firms are now leapfrogging into cardiovasculars, anticholesterol products and central nervous system drugs. In the frontier area of genetic engineering, the U.S.' Genentech recently licensed the anti-coagulant Argatroban from Mitsubishi Kasei. Japanese drugs have won over 3,100 U.S. patents since 1980, pushing Japan past West Germany as the leading foreign source of patents for drugs in the U.S.

John Rae

Inside Eisai's pharmaceutical research facility in Andover, Mass.
"Japanese drug companies are becoming world-class players."

Japan's drug industry probably would have emerged earlier as a global competitor but for its own peculiarities. These companies aren't multinationals like Sony or Honda. Japan's fragmented drug industry is made up of companies that are largely family owned. They don't enjoy the financial support of a big group of companies. Moreover, years of government protection against foreign competitors, as well as lax regulatory standards, allowed the companies to profit from selling drugs of dubious efficacy. Japanese drugmakers had little incentive to develop innovative products.

The easing of government restrictions on foreign direct investment in the mid-1970s meant foreign pharmaceutical companies could operate more freely in Japan. While this broadened markets for U.S. companies, it also woke up the Japanese. Spotting opportunity, several big Japanese nonpharmaceutical companies are getting into the drug market through biotechnology. Recent entrants such as Ajinomoto (food), Mitsubishi Kasei (chemicals) and Kirin Brewery (beer) are bigger and richer than traditional drug companies.

Since the mid-1970s Japanese drugmakers have doubled R&D budgets to nearly 10% of sales, a ratio comparable to that of U.S. companies. They have invested heavily in new research facilities and expanded the number of employees engaged in R&D. Armed with powerful yen and relatively weak U.S. equity values, they have also tapped directly into research abroad by buying small biotechnology companies. The Japanese are sending trainees overseas and are funding research at U.S. universities.

The biggest Japanese drug export success so far is Tanabe's Cardizem, which Marion Merrell Dow began selling in 1982. This cardiovascular drug brought Kansas City-based Marion sales of $584 million in the fiscal year ending June 1989. On the way is Pravachol, a cholesterol-lowering drug that Sankyo licensed to Bristol-Myers Squibb in 1985. The product competes directly with Merck & Co.'s Mevacor, a product that Daiwa Securities' Kenneth Nover estimates brought in $400 million in 1989.

Curiously, the Ministry of International Trade & Industry, the powerful force behind many of Japan's other well-known export successes, never

got directly involved in this industry. But in subtle ways the government made sure that Japanese firms were protected from foreign competition. As Harvard School of Public Health Professor Michael Reich puts it: "Japanese national health policy unofficially served as industrial promotion policy for pharmaceuticals."

Until the mid-1980s, the Ministry of Health & Welfare required foreign firms to apply for the first step of drug approval with a Japanese partner—and clinical trials had to be conducted in Japan on Japanese. This necessitated the creation of research labs in Japan and the training of local scientists to perform the work. "These policies resulted in a fairly quick transfer of technology from the rest of the world into the Japanese pharmaceutical industry," says Pfizer's Neimeth.

What next? The Japanese are still far behind the American and European drug companies when it comes to international distribution and production. But here, too, they are making progress. Japanese companies initially licensed products to U.S. or European companies to sell. Now they are using their proprietary research as leverage to form joint ventures or strategic alliances with foreign firms. Two years ago Chugai Pharmaceutical formed a joint venture with Upjohn. Upjohn hopes to profit from Chugai research, while Chugai will pick up Upjohn's U.S. marketing network.

The Japanese are also going it alone. Fujisawa Pharmaceuticals took over a joint venture it had with SmithKline Beecham near Philadelphia two years ago, and last year it purchased Rosemont, Ill.-based Lyphomed, which sells injectable drugs to hospitals. Overnight, this strategic acquisition gave Fujisawa a distribution capacity that would have taken years to create.

Fortunately, U.S. drug executives are paying attention to intelligence from the field, aggressively setting up operations in Japan. Forward-thinking Merck, for example, bought control of one Japanese drug company, Banyu Pharmaceutical, in 1983.

Says Henry Wendt, chairman of SmithKline Beecham: "It is quite clear that to be competitive in pharmaceuticals, a company needs a position in each of the major markets, the U.S., Europe and Japan. This is no less obvious to the Japanese." As part of its strategic planning for the 1990s, SmithKline plans to build a research facility in Japan. "There is good science in Japan," says Wendt, "and we have to tap into it just as we do in the U.S." And just as the Japanese will do, increasingly, in the U.S. ■

Waking up

The six largest Japanese drug companies are smaller than their U.S. counterparts but are aggressively expanding at home and abroad.

The top six in Japan

Company	Sales[1]	Profits[1]	Market capitalization
	——$millions (Y140 = $1.00)——		
Takeda Chemical	$4,905	$277	$14,470
Sankyo	3,043	101	7,180
Shionogi	2,082	84	4,240
Yamanouchi Pharmaceutical	1,790[2]	21[2]	6,810
Tanabe Seiyaku	1,655	68	3,030
Fujisawa Pharmaceutical	1,606	22	4,390

Top six U.S. drug companies[3]

Company	Sales[4]	Profits	Market capitalization
	——$millions (Y140 = $1.00)——		
Johnson & Johnson	$9,486	$1,063	$19,913
Bristol-Myers Squibb	8,973	1,393	29,160
Merck	6,324	1,435	30,612
American Home Products	5,729	1,005	15,802
Pfizer	5,546	736	11,495
Eli Lilly	4,434	890	18,872

[1]Fiscal year March 1989. [2]Estimate. [3]Ranked by worldwide drug sales. [4]Latest 12 months.
Sources: *Japan Company Handbook*; Dekoni Securities

The old news is that Fred Carr is stuck with a wad of shaky junk bonds. The new news is that First Executive's basic insurance business is limping, too.

Dancing as fast as he can

By Gretchen Morgenson

FRED CARR, SHOT DOWN as a high-flying Wall Street fund manager in the early 1970s, made a stunning comeback. From California he launched First Executive Corp. and built it into a multibillion-dollar company selling low-cost life policies backed with investments in junk bonds.

But now, at 58, for the second time in his career, he is in a bind. Sales of insurance and annuities at First Executive have slowed considerably; at the same time, annuity surrenders are doubling and policy loans are increasing. Most disturbing of all: Investment income from First Executive's investment portfolio dropped 2% in the quarter ended Sept. 30. This is especially ominous because in the past high investment yields have enabled Carr to price insurance products relatively cheaply. In fact, his high investment returns—more than 25% per annum—have set him apart from his peers for more than ten years.

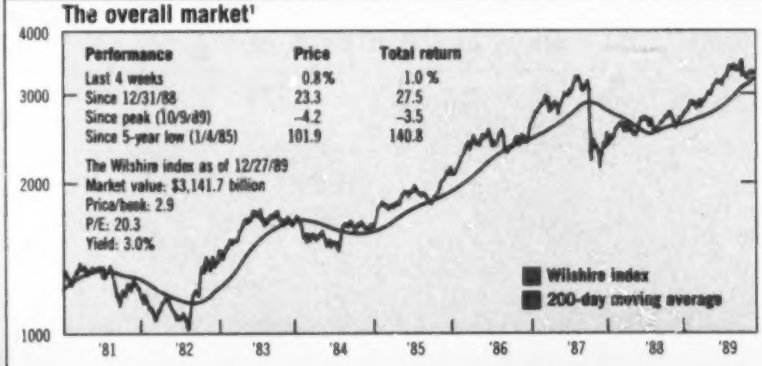
First Executive was one of the nation's fastest-growing insurance outfits in the 1980s. Last year the company had $57 billion in insurance in force, nearly 25 times more than in 1980. Premium income hit a high of $2.4 billion in 1986, five times what it was at the decade's beginning. Invest-

The Forbes Wall Street Review

Edited by Eric S. Hardy

The stock market was kinder but not always gentler to investors in 1989. With just a few days left on last year's calendar, the Wilshire index was showing better than a 23% price increase and a total return in excess of 27% for 1989, even after the Oct. 13 debacle. But Wall Street might have a tougher time matching these gains in 1990. For starters, the price-to-earnings multiple on the Wilshire index has crept back up to 20. And while security analysts are not predicting a recession, they do think the economy will struggle in the first half of the new year.

The overall market[1]



Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 5,000 stocks, capitalization weighted	3,376.81	–1.1%
Wilshire index 5,000 stocks, equal weighted	21.48	–1.4
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,724.40	–1.3
S&P 500 Capitalization weighted cross-section, major stocks	348.81	–1.1
NYSE Capitalization weighted, all listed common stocks	152.69	–1.2
Amex Capitalization weighted total return stocks, warrants	372.96	–1.2
Nasdaq Capitalization weighted, all issues except warrants	449.81	–0.5
Amex international market index Capitalization weighted, 50 largest ADRs	225.03	0.6

Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[2] (EAFE) a dollar denominated capitalization weighted index	1053.20	1.8%
Institutional[3] Approximately 200 stocks with high institutional ownership	114.21	–2.1
Individual[3] Approximately 200 stocks with low institutional ownership	105.05	–2.4
Technology Hambrecht & Quist index	253.15	unchanged
Gold[4] (Composite quote of 6 major dealers)	$406.50	–1.5
Yen[4] (per $U.S.)	141.90	–1.6
Commodity index[4] (CRB futures index, 1967 = 100)	228.77	0.5
Oil[4] (W Texas Intermediate)	$21.80	5.1
T Bills[4] (90 days)	7.61%	1 basis point
Broker loan rate[4]	9.50%	unchanged

The Best Performing Stocks

Company	Price	2-week change	P/E	Reason
Mentor Graphics	17½	24%	13	Rides coattails of [illegible] in technology stocks
Hubbell	49¼	16	17	Agrees to joint venture with General Electric
Manor Care	16⅛	15	28	Reports a 48% increase in net income for the second quarter of 1989
Intergraph	17½	15	12	Company announces that its fourth quarter will be better than analysts predicted
Echlin	16⅛	14	21	First-quarter earnings come in higher than Wall Street's projections

The Worst Performing Stocks

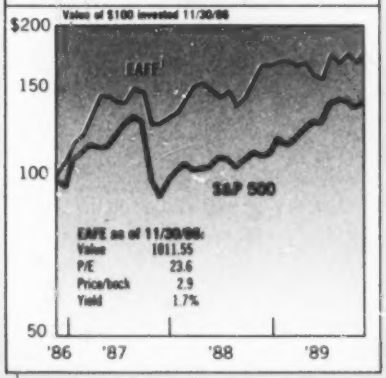
Company	Price	2-week change	P/E	Reason
Walt Disney	109¼	–16%	21	Analysts are unsure if company can maintain last year's performance
Rite Aid	31¼	–16	13	Earnings, excluding extraordinary items, lower than expected
Trinity Inds	29½	–14	12	Railcar orders are below earlier forecasts
TCBY Enterprises	19⅛	–12	19	Suffers increased competition and store traffic is likely to be reduced by cold weather
Southeast Banking	19¼	–12	5	Growth in problem loans feared

Note: All data for periods ending 12/27/89. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization-weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Morgan Stanley Capital International Perspective. [3]For period ending 12/22/89. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [4]Knight-Ridder Financial Information. [5]A basis point is equal to one-hundredth of a percentage point.

World Markets Review

Edited by Gustavo Lombo

Foreign vs. U.S. markets



Developed markets

Market	Total return[2] 3 months	12 months	P/E
Denmark	17%	48%	14
Hong Kong	13	9	10
Belgium	12	13	13
Germany	10	25	16
Japan	9	3	51
Finland	–16	–21	10
New Zealand	–14	10	16
Sweden	–9	24	14
Australia	–7	3	11
UK	–5	9	11

Emerging markets[3]

Region	Total return[2] 3 months	12 months	P/E
Latin America	20%	86%	NA
Asia	3	54	NA

Country	Total return[2] 3 months	12 months	P/E
Argentina	163%	183%	23
Turkey	138	318	13
Greece	56	76	27
Jordan	–10	–2	15
Colombia	–1	8	7
Malaysia	–1	27	27

Several of the world's smaller stock markets boomed last year. Over the last three months Denmark outperformed all other developed markets with a 17.2% total return. Hong Kong, troubled by the Tienanmen Square tragedy, was the worst performer three months ago but has since rebounded almost 13%. As counterpoint, the Morgan Stanley Capital International Perspective index for New Zealand fell 14%, pushing New Zealand's performance from first place in August 1989 to next-to-last place in November (in last place was Finland). New Zealand's problem: a rise in short-term interest rates and a sharp increase in the country's goods and services taxes.

Turkey, with a market value of nearly $5 billion, was the best-performing emerging market. The International Finance Corp. dollar-denominated index of Turkish shares shows a total return of 318% over the past 12 months. In August the Turkish government passed new regulations designed to attract foreign investors.

Who's Hot

Company/country	Business	Price	3-month price change	P/E
Ampolex Ltd/Australia	construction	3½	63%	37
Baltica Hldg/Denmark	insurance	107½	60	6
Credit F de France/France	banking	211½	55	12
Mitsubishi Oil/Japan	energy	12	51	67
Dyckerhoff Stamm/Germany	bldg materials	425½	49	23

Who's Not

Company/country	Business	Price	3-month price change	P/E
British Comm Hldgs/UK	multicompany	1½	–45%	10
Next/UK	merchandising	1⅜	–35	11
Elkem/Norway	metals	27½	–33	5
Elders Res NZFP/N Zealand	paper products	1¼	–27	7
Inco/Canada	metals	28	–24	4

Cheap Foreign Stocks

Company/country	Business	Price	Earnings	P/E
Aust Consolidated/Australia	energy	62½	314.72	6
Ml Insurance/Australia	insurance	2	0.21	10
Sevillana Electricidad/Spain	utility	5½	0.51	11
Shell Trans & Trading/UK	energy	7	0.63	11
Siemens Stamm/Germany	elec, electronics	345¼	22.30	16

High-Yielding Foreign Stocks

Company/country	Business	Price	Yield	P/E
British Steel/UK	steel	2	10.9%	4
Westpac/Australia	banking	4⅛	8.6	7
Unión Elect-Fenosa/Spain	utility	4	8.1	9
Intercom/Belgium	utility	97¾	7.6	12
Canadian Pac Forest/Canada	bldg materials	30½	7.3	9

Note: All data for period ending 11/30/89. Selected stocks have a market capitalization of at least $300 million. [1]EAFE is a price return index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. [2]Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. [3]Source: International Finance Corporation. Data for period ending 10/31/89. NA: Not applicable. Principal source: Morgan Stanley Capital International Perspective.

If you're going to make money by outsmarting Wall Street, you have to start by looking at what Wall Street expects for a company—the consensus forecast.

Unpopular stocks

By Steve Kichen

HERE'S AN interesting speculation that turns up in a screen of stocks that are selling at low multiples of expected 1990 earnings: Bank of New England. This is not what you would call a glamour issue. Disasters in the bank's loan portfolio will take its earnings from $4.06 a share in 1988 to a substantial loss for 1989. At a recent 8⅜, the stock is trading at a third of book value and a fifth of its high in 1986. The management has announced that it is seeking a strong merger partner and trying to sell assets. A quarterly dividend had to be rescinded. The chief executive, under fire, is on his way out.

Notwithstanding the recent bad news, analysts who follow the stock are still expecting an earnings rebound in 1990. The 23 published estimates on this company range from a high of $3.90 to a low of $2.20. If the bank survives as an independent entity the stock could quite plausibly recover to book value, at least, giving today's purchaser a handsome gain.

We searched the well-known IBES database for unpopular stocks like this one. IBES, or Institutional Brokers Estimate System, is a collection of earnings forecasts on 4,000 companies maintained by Lynch, Jones & Ryan, a New York City brokerage. We picked out 145 stocks with estimated 1990 P/ES that are no higher than 75% of their five-year average P/ES. In short, these stocks are cheap.

The trick, of course, is figuring out when they deserve to be cheap and when they don't. In some cases a company shows up on the list because an entire industry is out of favor. Computer companies have shown some earnings weakness of late; hence the appearance here, at single-digit earnings multiples, of such growth stocks as Compaq, Computer Associates and Cray Research. Some cyclical industries, like paper, are perceived as being too close to their tops, notwithstanding the likelihood of fairly good earnings for at least one more year. That's how Potlatch, Mosinee Paper and Georgia-Pacific get on this list.

The "flash" estimate is a new IBES statistic. Whereas dozens of analysts may contribute to the average estimate, the flash estimate reflects only the most recent changed estimates submitted by analysts over the last six weeks. Richard Pucci, director at Lynch, Jones & Ryan, explains that this estimate can be an alert that one or a few analysts are moving away from the pack. "The way to use estimates to make money is not just to be a good forecaster but to go out on a limb and argue with the data," he declares. "If you side with the optimistic analyst, and he turns out to be correct, that's when a stock is likely to move up." Most of the flash estimates on the following pages are lower than the consensus forecasts. Some exceptions: Liz Claiborne, Louisiana Pacific and Potlatch.

The column "3-month change" also shows the direction of the forecasts. Hexcel, like many aerospace companies, is showing a declining estimate. The forecast for this manufacturer of honeycomb structural materials dropped 21% in three months. In contrast, the mean estimate rose 13% over the last three months for Centex, a Dallas-based home building firm.

Another useful bit of information for interpreting the earnings estimate is the confidence factor. This shows the level of agreement among security analysts. International Paper, for instance, has 24 estimates for fiscal 1990. They range from a low of $4.60 to a high of $8.80 and a mean of $6.89. But there is a lot of disagreement among the analysts following this firm, as indicated by the "low" confidence level. Investors abhor uncertainty. That's another reason for the stock to trade at a low multiple.

The biggest company to get through our computer screens was IBM. It is selling at only 9.5 times estimated 1990 earnings of $9.95. Is it a bargain? Pucci points out that some folks on Wall Street believe IBM is no longer a growth company but is more like a cyclical capital goods company. If you disagree, you will probably find IBM undervalued.

Cheap—but why?

All these stocks are trading at less than 12 times expected 1990 earnings and at estimated P/Es at least a fourth less than their norms. Some are irrationally cheap, perhaps because an entire industry is, undeservedly, out of favor. The "flash" estimate is the average of forecasts updated in the last six weeks.

Company/business	Recent price	Latest 12-mo EPS	1990 estimated earnings per share					P/E	
			"flash"	average	number	confidence factor	3-mo change	5-year average	1990 estimate
Aetna Life & Casualty/insurance	56½	$6.51	NA	$5.44	31	average	–2.8%	15.1	10.4
HF Ahmanson & Co/savings & loan	18¾	1.97	NA	2.72	18	average	0.0	11.5	6.9
Alaska Airgroup/airline	20⅝	2.93	NA	2.67	18	low	–5.9	18.5	7.7
Alfa/insurance	11¼	1.22	NA	1.33	3	very high	0.0	12.6	8.5
American Business Prods/bus forms	21⅞	1.86	NA	2.11	4	average	–4.0	14.4	10.4
Ametek/precision instruments	13¼	0.77	NA	1.18	10	average	0.0	17.9	11.2
AmSouth Bancorporation/banking	23½	3.38	NA	3.55	11	high	–6.5	9.5	6.6
Apogee Enterprises/auto glass	15¾	1.04	$1.30	1.47	7	average	–1.3	16.2	10.7
Ashland Oil/oil refining	39¾	2.96	3.44	3.72	25	low	–10.5	16.8	10.7
Bank of New England/banking	8⅜	2.79	2.21	2.97	23	low	–10.8	11.3	2.8
Bank of New York/banking	40⅞	–0.09	6.81	6.91	19	high	–1.1	9.8	5.9
Bank South/banking	11⅞	1.34	NA	1.59	5	average	3.9	12.9	7.5
Boise Cascade/paper & forest prods	44	6.46	4.45	4.73	23	low	–10.5	12.9	9.3
Bowater Inc/paper	27	4.22	3.43	3.22	12	average	–4.4	13.8	8.4
Brown Group/shoe mfg & retailing	27	0.44	2.01	2.44	5	low	–18.1	17.0	11.1
Caesars New Jersey/hotel & casino	18⅛	2.09	2.47	2.51	5	average	–2.7	15.6	7.4
Caesars World/hotel & casino	29⅛	2.49	2.90	2.97	16	low	–8.3	16.9	9.9
Carlisle Comp/rubber, plastic & metal	32¼	2.60	NA	3.69	4	low	–4.1	12.6	8.7
CDI/engineering & tech svcs	15⅛	1.06	1.25	1.27	4	very high	–3.0	19.1	11.9
Centex/real estate devel, construct	30⅛	3.52	4.50	4.32	7	high	13.0	15.1	7.1
Central Bancshares South/banking	12¾	1.93	2.14	2.17	6	high	–3.5	9.9	5.9
Chesapeake Corp/paper & packaging	18⅞	2.56	2.10	2.14	14	average	–11.9	16.8	8.8
Clayton Homes/manufactured housing	9	0.99	1.14	1.10	3	average	0.0	16.8	8.2
Club Med/resorts	18⅜	1.30	NA	1.67	3	low	6.3	17.5	11.2
Comm Metals/steel mfg, mktg & trad	21¾	2.46	2.55	2.49	5	average	–6.7	13.2	8.7
Compaq Computer/computer equip	78½	8.18	9.22	9.26	48	average	–4.2	18.3	8.5
Comp Associates Intl/comp software	12⅜	0.97	1.39	1.39	21	low	–17.2	19.6	9.1
Constellation Bancorp/banking	28	3.76	4.50	4.54	5	average	2.7	9.5	6.2
Countrywide Credit Inds /finl svcs	8¼	0.62	1.03	1.00	8	low	–11.5	13.5	8.3
Cray Research/computer equip	38⅛	4.04	3.87	3.99	29	average	–14.7	19.6	9.7
Crestar Financial/banking	28¾	3.20	3.51	3.51	16	very high	0.0	11.9	8.2
Dana/auto parts	34¼	3.81	3.48	3.67	16	average	–14.6	14.0	9.3
Dayton Hudson/department stores	62⅜	4.27	5.04	5.68	30	average	6.7	17.1	11.0
Deb Shops/apparel stores	12⅞	1.08	1.22	1.32	9	average	6.4	17.5	9.8
Digital Commun Assoc/comp equip	20	1.20	2.15	2.12	20	average	1.4	16.2	9.4
Digital Equipment/computer equip	83¼	7.94	7.58	7.67	42	average	–14.6	15.1	10.9
Donaldson/auto parts	21½	1.55	1.92	2.07	6	average	–0.9	14.3	10.4
DPL/electric utility	30¼	3.11	3.42	3.33	19	high	–0.2	13.2	9.1
E-Systems/defense electronics	30⅞	2.57	3.05	3.06	26	very high	–1.2	16.5	10.1
AG Edwards/securities brokerage	22⅞	2.32	2.65	2.75	7	high	9.5	15.4	8.3
EG&G/electronics	32¾	2.35	2.79	2.82	12	average	0.0	18.9	11.6
Equitable Iowa Cos/insurance	30¼	3.15	4.63	4.29	4	average	11.1	10.2	7.2
Family Dollar Strs/discount stores	10⅛	0.78	0.96	0.96	13	low	–8.5	17.9	10.5
Fedders/climate-control equip	13½	1.16	1.35	1.36	7	high	0.7	15.9	9.9
Ferro/specialty chemicals	25¾	2.26	2.46	2.44	7	average	–3.9	17.1	10.6

NA: Not available

Sources: Institutional Brokers Estimate System; Media General (5-year average P/E).

Cheap—but why?

Company/business	Recent price	Latest 12-mo EPS	1990 estimated earnings per share			confidence factor	3-mo change	P/E 5-year average	P/E 1990 estimate
			"flash"	average	number				
First American Cp TN/banking	21	$0.79	$2.65	$2.65	12	average	- 7.0%	13.6	7.9
First Eastern Cp PA/banking	30½	3.18	3.47	3.51	4	high	1.1	14.0	8.7
First Executive/insurance	9⅜	0.65	2.04	2.01	13	average	–3.8	9.8	4.7
First Tennessee National/banking	24⅞	1.89	3.28	3.32	10	average	3.1	10.7	7.5
Fleet Norstar Finl Group/banking	26¼	3.28	3.57	3.63	29	high	–1.3	9.8	7.2
Fleetwood Ent/recreational vehicles	23⅞	2.56	2.36	2.64	3	very high	–13.7	13.5	9.0
Fleming Cos/food distributing	28⅞	2.64	NA	3.05	14	high	–8.4	16.5	9.5
Georgia-Pacific/paper & forest prods	47⅞	6.94	6.05	6.38	23	average	3.4	15.9	7.5
Gerber Scientific/computer equip	16¼	1.39	1.41	1.64	4	average	–10.3	19.7	10.2
Gibson Greetings/greeting cards	25	2.44	2.55	2.66	9	high	–1.1	12.9	9.4
Gould's Pumps/pumps	17⅜	1.28	1.61	1.58	10	average	–12.2	17.8	11.2
Great Lakes Chemical/chemicals	47⅜	3.40	4.01	3.98	16	average	–3.8	16.5	12.0
Great Westn Finl/savings & loan	17⅜	1.84	2.63	2.58	16	average	2.3	9.6	6.7
Green Tree Acceptance/finl services	15⅛	1.43	1.85	1.88	8	average	19.7	12.7	8.0
Guilford Mills/textiles	24	2.53	2.58	2.72	11	average	–11.6	13.4	8.8
Harsco/metal fabricating	25¼	–0.08	2.30	2.39	9	low	–9.8	19.0	10.8
Hartmarx/retailing	19⅜	1.50	1.41	1.74	12	low	–15.9	16.9	11.1
Hasbro/toys	18¼	1.52	1.80	1.81	13	average	0.5	17.9	10.4
Heilig-Meyers/furniture stores	20⅛	1.57	1.95	1.96	8	high	–4.3	19.3	10.3
Hexcel/aerospace	19	1.64	1.66	1.91	10	low	–20.7	15.4	9.9
Hovnanian Enterprises/home building	7¾	1.15	1.57	1.58	5	average	4.6	9.8	4.9
Huntington Bancshares/banking	20	2.19	2.43	2.47	10	high	0.0	11.0	8.1
IBM/computer equip	94¾	9.40	9.79	9.95	42	average	–12.2	15.0	9.5
INB Financial/banking	28¼	3.36	NA	3.79	9	very high	0.2	12.7	7.5
Ingersoll-Rand/industrial machinery	48½	3.65	4.28	4.44	20	average	0.2	16.7	10.9
Integra Financial/banking	25¼	2.74	3.10	3.13	5	high	–1.2	11.5	8.1
International Paper/paper	56⅝	7.72	6.34	6.89	24	low	–1.7	18.7	8.2
Interstate Power/electric utility	25⅛	2.56	2.40	2.28	5	average	3.6	16.2	11.0
ITT/multicompany	58¾	5.91	6.42	6.61	21	high	–0.4	14.0	8.9
James River/paper	28½	2.89	2.96	3.11	13	average	–1.8	14.6	9.2
JP Inds/plumbing and trans prods	12⅝	1.28	1.37	1.42	9	average	–1.3	12.7	8.9
K mart/discount department stores	34¼	3.67	4.01	4.17	37	average	–4.5	15.3	8.2
Kaman/aerospace	9⅛	0.45	1.33	1.35	5	high	–17.1	11.6	6.8
Kellwood/apparel	22	2.74	2.84	3.08	9	average	–8.0	11.8	7.1
Kemper/insurance	46	6.15	4.65	4.59	16	average	4.0	16.5	10.0
King World Productions/TV programs	38	2.90	3.30	3.28	11	average	0.3	18.2	11.6
Lennar/home building	19⅝	2.80	2.80	2.99	4	average	–5.9	17.0	6.6
Liz Claiborne/apparel	24	1.71	2.12	2.06	16	high	5.1	17.7	11.7
Loral/aerospace	30	3.35	3.63	3.66	19	average	–2.6	14.5	8.2
Louisiana Pacific/forest products	42⅜	4.50	5.02	4.25	17	low	3.6	19.8	10.0
Mapco/coal, gas, oil	39½	2.94	3.60	3.79	8	average	–0.5	13.9	10.4
Mark Twain Bancshares/banking	17¾	2.08	2.25	2.35	4	average	–4.0	12.8	7.6
Masco Corp/building materials	24⅛	1.76	2.23	2.26	16	average	–9.6	17.5	10.7
Measurex/precision instruments	23½	2.16	1.98	2.27	14	average	–10.9	16.7	10.4
Melville/specialty retailing	44	3.29	3.95	4.00	19	high	–0.4	16.0	11.0
Merchants Natl/banking	28	3.33	NA	3.83	8	very high	0.2	15.6	7.3
Midlantic Corp/banking	31⅝	6.49	6.71	6.99	20	high	–0.8	8.9	4.5
Herman Miller/furniture	19⅛	1.67	NA	1.95	3	average	–2.5	15.6	9.8
Monarch Capital/insurance	17¼	1.98	2.30	2.99	11	very low	–18.7	13.0	5.8
Mosinee Paper/paper	17⅝	$1.89	$2.15	$2.13	4	average	0.0%	19.4	8.3

NA: Not available

Sources: Institutional Brokers Estimate System; Media General (5-year average P/E).

Cheap—but why?

Company/business	Recent price	Latest 12-mo EPS	1990 estimated earnings per share "flash"	1990 estimated earnings per share average	1990 estimated earnings per share number	1990 estimated earnings per share confidence factor	3-mo change	P/E 5-year average	P/E 1990 estimate
Multibank Finl/banking	14⅛	2.76	2.72	2.81	6	average	–17.5	11.0	5.0
National Comp Sys/opt scanning equip	8½	0.42	0.87	1.11	5	average	–9.7	19.1	7.7
Nord Resources/mining	13½	0.87	1.54	1.47	4	low	–9.8	14.4	9.2
North Fork Bancorporation/banking	16⅞	2.25	2.50	2.58	5	high	–4.4	9.6	6.5
Ohio Casualty/insurance	47¼	6.39	5.41	5.40	24	average	4.4	13.2	8.8
Old Republic Intl/insurance	25¼	2.19	3.77	4.08	4	average	5.9	11.0	6.2
Olsten/temporary office personnel	16⅞	1.24	1.60	1.51	6	high	–2.5	18.4	11.2
Paccar/trucks	40¼	5.37	5.03	5.01	10	average	–6.3	12.4	8.0
Pansophic Systems/comp software	16½	1.05	1.50	1.38	10	low	2.9	19.6	12.0
Parker-Hannifin/industrial equip	25¼	2.28	2.40	2.45	19	average	–7.8	17.6	10.3
Pic'n'Save/discount stores	12¾	1.09	1.36	1.47	13	average	–11.9	19.5	8.7
Piccadilly Cafeterias/cafeteria-style rest	14	1.24	1.37	1.35	4	very high	0.7	18.3	10.4
Pier 1 Imports/specialty retailing	10⅛	0.68	0.97	0.96	14	high	–2.0	16.6	10.5
Pioneer Group/mutual fund mgmt	22⅛	2.19	NA	2.61	4	average	–0.7	13.8	8.5
PNC Financial/banking	41⅜	5.27	5.80	5.89	31	high	–1.8	11.3	7.1
Potlatch/forest products	36¼	4.60	4.60	4.47	13	low	–3.6	13.0	8.1
PPG Inds/glass, coatings	40¾	4.19	4.26	4.21	20	average	–5.8	16.9	9.7
Presidential Life/insurance	13½	1.61	1.80	1.94	5	average	1.5	12.9	7.0
Public Svc North Carolina/elec utility	16⅝	1.40	1.57	1.65	3	average	–1.1	13.8	10.1
Puget Sound Bancorp/banking	22¾	1.66	2.85	2.73	7	average	–9.0	15.3	8.3
Quick & Reilly Group/sec brokerage	13⅜	1.20	1.40	1.37	3	very high	9.6	15.4	9.8
Raytheon/electronics	68⅞	7.86	8.67	8.77	33	very high	0.0	11.2	7.9
Reynolds & Reynolds/business forms	24⅛	2.53	2.80	2.82	3	average	0.7	13.6	8.6
Robert Half Intl/personnel svcs	16½	1.11	1.40	1.40	6	high	–2.0	18.9	11.8
Ryhoff-Sexton/food distributing	22⅞	1.68	1.95	2.23	5	average	–9.3	19.3	10.3
Ryland Group/construction	19	2.73	3.50	3.40	10	average	4.9	11.3	5.6
Sears, Roebuck & Co/retail, finl svcs	37⅞	2.88	4.65	4.90	31	average	–2.9	12.7	7.7
Shawmut National/banking	20¼	3.51	3.70	3.96	19	high	–3.8	9.8	5.1
Snap-On Tools/hand tools	31⅜	2.65	2.81	2.88	19	high	–5.8	15.5	10.9
South Carolina National/banking	21⅞	2.69	2.95	2.94	7	high	–3.6	10.8	7.4
Southeast Banking/banking	19⅛	3.75	3.64	3.79	21	average	–5.0	17.1	5.0
Springs Inds/electronics	37⅞	3.86	4.01	4.11	13	average	–7.4	18.6	9.2
SPS Technologies/aerospace	42¾	3.92	4.25	4.44	5	average	–4.9	15.5	9.6
Standard Register/business forms	15⅞	1.38	1.47	1.54	5	high	–7.7	14.4	10.3
Summit Bancorporation/banking	17½	2.06	NA	2.30	5	very high	0.0	10.5	7.6
Tandy Corp/retail consum electronics	38	3.65	4.05	4.10	36	average	–3.3	14.9	9.3
TBC/auto parts	12¾	1.04	1.17	1.17	9	very high	0.8	19.7	10.9
Temple-Inland/paper and packaging	66⅛	7.60	7.81	8.07	16	average	–2.5	11.8	8.2
TJ Intl/building materials	24⅛	2.29	2.80	2.76	8	average	–0.3	16.1	8.8
Tokheim/gasoline meters	20⅛	0.43	NA	1.72	4	average	–5.4	17.9	12.0
UJB Financial/banking	19¼	2.71	2.95	3.05	12	high	–2.5	10.2	6.3
Unifi/textiles	13½	1.24	1.65	1.61	8	average	–1.8	12.0	8.4
Union Bank San Francisco/banking	23	3.97	NA	4.53	5	very high	–0.4	11.3	5.1
Union Camp/paper & packaging	36⅞	4.59	4.00	4.24	18	average	–3.1	14.6	8.7
United Stationers/office products	16⅝	1.60	1.61	1.65	5	average	–14.9	17.5	9.9
Watkins-Johnson/electronics	21¼	2.82	2.62	2.63	17	average	–3.6	14.8	8.1
Westvaco/paper & forest products	29½	3.42	3.14	3.31	21	low	–3.2	12.6	8.9
Weyerhaeuser/forest prods & packaging	26¼	2.79	2.54	2.58	24	low	–1.9	15.9	10.4
Xerox/office equip	57	3.73	6.53	6.52	15	average	–4.1	14.3	8.7
Yellow Freight System/trucking	26½	2.29	2.26	2.35	22	average	–13.2	18.4	11.3

NA: Not available

Sources: Institutional Brokers Estimate System; Media General (5-year average P/E).